

Phase 2 Local government



PERS Plan 3 Transfer Decision News

Washington State
Department of Retirement Systems

August 2002

Issue #3



New legislation impacts PERS Plan 3

Phase 2 Transfer Window

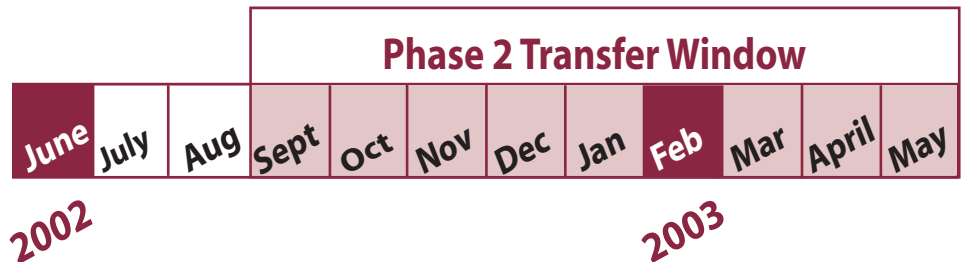
September 1, 2002, through May 31, 2003

For PERS Plan 2 members who work for cities, counties and other local government agencies.

In March 2002, the Washington State Legislature passed Senate Bill 6376 allowing Phase 2 members, who transfer to Public Employees' Retirement System (PERS) Plan 3 during their initial transfer window, to receive the transfer payment if they earn service credit in either June 2002 or February 2003.

Prior to Senate Bill 6376, a Phase 2 member had to earn service credit in February 2003 as part of the criteria for receiving the transfer payment which is equal to 111 percent of your March 1, 2002 account balance.

To be eligible for the transfer payment you must earn service credit in **June 2002** or **February 2003**.



How do I become eligible for the transfer payment?

- Transfer during your transfer window, September 1, 2002 through May 31, 2003; and
- Earn any amount of service credit in either June 2002 or February 2003.

When is the payment applied to my PERS Plan 3 account?

- June 2003.

Comparing plan features

The tables below highlight a few of the differences between PERS Plan 2 and PERS Plan 3. There are many plan features that can impact your decision. Additional plan comparison information is available on the Transfer Education Web site and on pages 18 and 19 of your *Journey to Retirement Transfer Decision Booklet*.

Retirement Eligibility

	Plan 2 Defined Benefit	Plan 3	
		Defined Benefit	Defined Contribution
Normal retirement with full benefits	Age 65 or older with at least 5 Service Credit Years	Age 65 or older with at least 10 Service Credit Years, or 5 Service Credit Months after reaching age 54, or 5 Service Credit Years by June 1, 2003, under PERS Plan 2.	You may request withdrawal of your contributions and earnings any time you separate from PERS-covered employment.
Early retirement with reduced benefits	Age 55 or older with at least 20 Service Credit Years	Age 55 or older with at least 10 Service Credit Years	You may request withdrawal of your contributions and earnings any time you separate from PERS-covered employment.

Plan Benefits

	Plan 2 Defined Benefit	Plan 3	
		Defined Benefit	Defined Contribution
Formula for Pension Benefit	The defined benefit is guaranteed and is based on this formula: $2\% \times \text{Service Credit Years} \times \text{Average Final Compensation}$	The defined benefit is guaranteed and is based on this formula: $1\% \times \text{Service Credit Years} \times \text{Average Final Compensation}$	The value of the benefit is based on the amount contributed and the performance of the funds.

Transfer decision: Frequently Asked Questions

The Department of Retirement Systems (DRS) updates the Frequently Asked Questions (FAQs) Web page in response to new questions from members. Here is a sample of some of the information available online (<http://www.wa.gov/drs/member/pers/2or3>).

Why was PERS Plan 3 created?

The legislature created PERS Plan 3 in response to members'

requests for a plan that provides flexibility and stability. The defined contribution portion of Plan 3 provides greater portability of retirement assets as well as increased personal control over member contribution rates and investment decisions. The defined benefit component provides a guaranteed benefit funded by the employer. PERS Plan 3 is also reflective of

evolving demographics and lifestyles in Washington state's workforce. It encourages the pursuit of public sector careers without creating barriers to other public or private sector employment.

The Legislature gave members a choice between PERS Plan 2 and PERS Plan 3, so members can compare the two plans and select the plan that best matches their personal needs.

FAQs continued on page 4

How to transfer to PERS Plan 3

- ☐ **Review educational materials.** See page 6 for a list of resources available to you.
- ☐ **Use the financial modeling software** to compare the projected benefits for both plans based on your personal situation. The software can be downloaded or used interactively at www.wa.gov/DRS/member/pers/2or3. If you do not have access to a computer, you can call the phone support center at 888-711-8773 and a customer service representative can create projections for you.
- ☐ **Complete the Member Information Form and return it to your employer.** On the form, you must:
 - **Complete the transfer section.**
 - **Decide on your contribution rate.** Transferring members must select a rate at the time of transfer. Take care in choosing your contribution rate. Under federal law, once you select a contribution rate you cannot change it unless you terminate employment, and begin employment with another PERS-covered employer (see article on page 5 about flexible contribution rates).
- **Determine your investment program.** Choose either the Washington State Investment Board (WSIB) Investment Program or the Self-Directed Investment Program. If you select the Self-Directed Investment Program, determine which funds you want your contributions invested in, and notify ICMA-RC of that allocation. You can reach ICMA-RC at 888-711-8773 or go to the PERS Investment Education Web site at <http://www.icmarc.org/pers>. Refer to the *Plan 3 Investment Guide* for the available funds.
- ☐ **Submit the Beneficiary Designation form to DRS.** It is recommended that you update your designation periodically. Forms are available from your employer or online at: <http://www.wa.gov/drs/member/pers/2or3>.
- ☐ **Read your PERS Plan 3 Member Handbook.** Available from your employer, or online at: <http://www.wa.gov/drs/member/pers/2or3>.

PERS Plan 3 Transfer Decision News is published by the Washington State Department of Retirement Systems.

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TDD line 360-586-5450

DRS Internet address:

www.wa.gov/DRS/drs.htm

Member e-mail contact:

recep@drs.wa.gov

If you did not receive previous editions of *PERS Plan 3 Transfer Decision News*, contact the editor at (360) 664-7934.

Example of steps in the transfer process

A member turns in the Member Information Form to their employer.

The employer sends the transfer request to DRS during their next reporting cycle. Consult with your employer to determine when your transfer data will be sent to DRS.

DRS sends the member's information to the record keeper. This takes a minimum of two days.

The record keeper sends a "Welcome to PERS Plan 3" letter to the member's home two days after the record keeper receives the data.

The time line for the member to review their account information depends on the member's investment program choice: The Self-Directed Investment Program or the WSIB Investment Program.

The Self-Directed Investment Program

Members can view account balance information the second business day of the month following the month the employer sends information to DRS.

This is possible as long as the information was transmitted to the record keeper on or before the third to the last business day of the month.

The total length of the transfer process for a Self-Directed Investment Program member can be up to eight weeks.

The WSIB Investment Program

Members can view account balance information two business days after the member information is transmitted to the record keeper.

The total length of the transfer process for a WSIB Investment Program member can be up to seven weeks.

PERS Publications

These PERS booklets are available to help you with your transfer decision. The *PERS Journey to Retirement Transfer Decision Booklet* was mailed to your home in May. The *PERS Plan 3 Investment Education Booklet* is available through your employer or when you attend a PERS Plan 3 Investment Education Seminar. Both publications are available online at: <http://www.wa.gov/drs/member/pers/2or3>.



How do PERS contributions impact the deferred compensation maximum deferral?

PERS Plan 2 and PERS Plan 3 members who earn \$14,200 or more annually can defer the maximum amount to their deferred compensation plan. The current maximum deferral limit for deferred compensation plans, like Washington State's Deferred Compensation Program (DCP) is \$11,000. This means PERS Plan 3 members who earn \$14,200 or more will be able to contribute the maximum to Plan 3 and not impact their deferred compensation maximum deferral limit.

Members who earn less than \$14,200, should know that the maximum they can defer to a deferred compensation plan could be impacted by their PERS contributions. The amount of the impact, if any, is based on the member's contribution rate. Additional information about how to calculate this impact is available in the Frequently Asked Questions page on the Transfer Education Web site. See page 6 for Web site information.

PERS Journey to Retirement transfer packet

DRS mailed Phase 2, PERS Plan 2 members a *PERS Journey to Retirement Transfer Decision Booklet* and a transfer letter in May 2002.

The booklet includes a thorough description of each plan and provides you with information to help you make your choice. The letter includes your March 1, 2002 account balance, 111 percent transfer payment amount, retroactive gain sharing payment and your years of service credit.

DRS has detected a small number of *PERS Plan 2 or Plan 3 Transfer Decision Booklets* that have a

printing error. To determine if your booklet is correct, look on page 19.

If page 19 is a full-page yellow and pink comparison chart, your booklet is correct. Keep this booklet as an important resource for making your transfer decision.

If page 19 of your transfer booklet is a blank "Notes" page, your booklet has the error and must be replaced. Please contact DRS if you have one of these booklets and a new booklet will be mailed to you. For more information, contact the editor at 800-547-6657 extension 4-7934 or 360-664-7934 for local callers.

FAQs from page two

I want a guaranteed retirement benefit. Which plan is better for me?

Both Plan 2 and Plan 3 provide a guaranteed benefit. The "Plan Benefits" table on page 2 provides the formula used to calculate the guaranteed defined benefit for each plan.

I'm planning to retire early. When will I be able to retire under each plan?

To retire at age 55 in PERS Plan 2 requires at least 20 service credit years; to retire from Plan 3 at the same age requires at least 10 service credit years. In both cases the benefit will be actuarially reduced. The "Retirement Eligibility" table on page 2 provides more retirement eligibility details.

Is the PERS Plan 3 defined contribution benefit based on my contributions to my account?

Yes. The ultimate value of the defined contribution benefit is based on the amount you contribute and the performance of the investments you choose.

Can the market affect my PERS Plan 3 defined contribution after I start drawing it?

Yes. Market ups and downs increase or decrease your account balance. It can also change your time line for receiving benefits. A growing account balance will last longer than a shrinking account balance.

Can I take my PERS Plan 3 defined contribution money without separating from employment?

No. Your contributions are part of your retirement income. However, if you choose, you can elect to withdraw the funds in your PERS Plan 3 defined contribution account any time you separate from all PERS-covered employment.

To see more FAQs, go to the PERS Journey to Retirement Portal at: <http://www.wa.gov/drs/member/pers/2or3>.

Plan 3 member contribution rates

IRS approves DRS proposal on TRS Plan 3 contribution rates

DRS recently received approval from the Internal Revenue Service (IRS) to provide an annual window for Teachers' Retirement System (TRS) Plan 3 members to change their contribution rate. DRS will seek executive request legislation during the 2003 session to authorize this change in state law. IRS approval of the DRS proposal opens the way for DRS to seek similar IRS approval for PERS Plan 3 and School Employees' Retirement System (SERS) Plan 3 this summer.

Executive request legislation

The IRS must approve the SERS and PERS Plan 3 requests, and the legislature must enact the executive request legislation before DRS can implement these changes. Given these approvals, the first open window for Plan 3 members to change their contribution rates is anticipated to be January 2004.

Background

Under current state law, a member's choice of contribution

PROPOSED PLAN 3 MEMBER CONTRIBUTION RATES*

Before rates can take effect, executive request legislation must pass in the State Legislature.

	MANDATORY CONTRIBUTION	ADDITIONAL CONTRIBUTION	TOTAL CONTRIBUTION RATE
Option A			
All ages	5%	0.0%	5%
Option B			
Up to age 35	5%	0.0%	5%
Age 35 to 44	5%	1.0%	6%
Age 45 & above	5%	2.5%	7.5%
Option C			
Up to age 35	5%	1.0%	6%
Age 35 to 44	5%	2.5%	7.5%
Age 45 & above	5%	3.5%	8.5%
Option D			
All ages	5%	2.0%	7%
Option E			
All ages	5%	5.0%	10%
Option F			
All ages	5%	10.0%	15%

**This rate table reflects the contribution rates approved by the IRS in DRS' recent TRS Plan 3 proposal. Before the rates can take effect, executive request legislation must pass in the State Legislature. For more information see article at left.*

rate is irrevocable unless the member changes employers. DRS has received numerous requests since the inception of TRS Plan 3 in 1996 to provide Plan 3 members with some flexibility to change their contribution rates. DRS worked with the Employee Retirement Benefits Board to develop the proposal that was submitted to the IRS as part of the formal TRS 3 plan qualification process.

Flexible contributions

Under this proposal, an additional contribution rate has been added to the basic rate of 5 percent. This provides members with flexibility to contribute amounts that will help them achieve their retirement goals. When added together, the rates equal the six options currently provided to Plan 3 members. See the proposed contribution rate table above.

Tax consequences

It is important to remember that regardless of which PERS Plan you choose, there may be tax consequences when you begin withdrawing your retirement benefit. This is because some contributions may have been made before federal taxes were taken out and earnings on your contributions grow tax-deferred.

If you are under age 59½, there may be additional penalty taxes for early withdrawal of money from the PERS Plan. You may want to consult a financial planner or tax advisor to help you analyze the tax consequences.

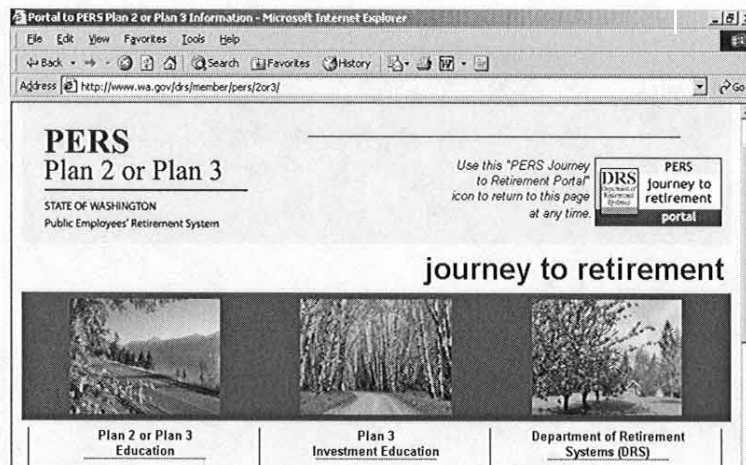
Early retirement reduction factors

Early retirement reduction factors are periodically updated by the Office of the State Actuary. New factors will become effective in September. Check the DRS Web site for updated information and publications.

PERS Journey to Retirement Portal:

<http://www.wa.gov/drs/member/pers/2or3>

The Transfer Education Web site, Investment Education Web site and DRS Web site are all available through the PERS Journey to Retirement Portal. See resources listed below under each Web site.



Phone Support Center and E-mail

Call 888-711-8773
or write
pershelp@icmarc.org.

Alternate formats

PERS Plan 3 materials are available in alternative formats, such as Braille, to system members. For more information, contact the editor at 800-547-6657 extension 4-7934 or (360) 664-7934 for local callers.

Transfer Information

- *PERS Journey to Retirement Transfer Decision Booklet*. Mailed to your home in May, or available from your employer or online.
- Transfer Education Seminars schedule and sign-up are on the Transfer Education Web site.
- Financial modeling software is available online.
- Transfer Decision Video is available from your employer or online.

Investment Information

- *PERS Plan 3 Investment Education Booklet* is available at seminars or from your employer.
- Investment Education Seminars schedule and sign-up are on the Investment Education Web site.
- Investment calculators are available online.
- Investment Education Video is available from your employer or online.

DRS Information

- Brochures, such as, *What is Dual Membership and How Does it Affect Me?*, are available on the DRS Web site.
- PERS Member Handbooks are available from your employer or online.
- Member newsletters are available online.

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Update your address
with your employer

PERS Plan 3 Transfer Decision News

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